CHAPTER ES. Executive Summary

The U.S. Department of Transportation (USDOT) requires agencies such as the Georgia Department of Transportation (GDOT) to implement the Federal Disadvantaged Business Enterprise (DBE) Program. GDOT periodically conducts disparity studies to help it make decisions concerning its future implementation of the Federal DBE Program. The last such study was completed in 2005.

GDOT engaged a team led by BBC Research & Consulting (BBC) to prepare the 2012 disparity study, which focuses on participation of minority- and women-owned firms (MBEs and WBEs), including DBEs, in GDOT's contracts from 2009 through June 2011. The disparity study also analyzes conditions for MBE/WBEs within the Georgia marketplace. The study examines steps to encourage utilization of all small businesses in GDOT contracts as well as programs specific to DBEs.

BBC and GDOT implemented a process to release a draft report, solicit public comments and additional information, and review those comments before preparing the final report. These steps were completed in June 2012. This Executive Summary briefly addresses the following questions:

- 1. What is the Federal DBE Program?
- 2. Why did GDOT undertake the disparity study?
- 3. What does a disparity study include?
- 4. Who performed the disparity study?
- 5. What proportion of firms available for GDOT contracts are MBEs and WBEs?
- 6. What share of GDOT contract dollars might be expected to go to MBEs and WBEs?
- 7. What share of GDOT contract dollars did go to MBEs and WBEs (and DBEs)?
- 8. Was there a disparity between the utilization and availability of MBEs and WBEs on GDOT contracts?
- 9. Is there any indication of "overconcentration" of DBEs in certain types of work?

- 10. What are conditions for minorities and women within the Georgia transportation contracting marketplace?
- 11. How can GDOT use study information when setting an overall goal for DBE participation?
- 12. How can GDOT use study information when projecting the portion of its overall DBE goal to be met through neutral means?
- 13. Can GDOT consider use of race- and gender-conscious measures such as DBE contract goals, in accordance with federal regulations?
- 14. If GDOT determines that it will use DBE contract goals, which racial/ethnic/gender groups of DBEs might be considered eligible for that program, in accordance with federal regulations?
- 15. What are GDOT's next steps?

1. What is the Federal DBE Program?

The federal government requires state and local governments to implement the Federal DBE Program if they receive USDOT funds for transportation projects, including those funded by the Federal Highway Administration (FHWA). GDOT receives USDOT funds through FHWA and the Federal Transit Administration (FTA), and therefore must implement the Federal DBE Program. This disparity study focuses on GDOT's implementation of the program regarding its FHWA-funded contracts.

The Federal DBE Program is intended to ensure nondiscrimination in the award and administration of USDOT-assisted contracts, remedy past and current discrimination against disadvantaged business enterprises, and ensure a "level playing field" in which those firms can compete fairly for USDOT-funded contracts. Federal regulations (49 CFR Part 26) provide the requirements for how state and local governments implement the Federal DBE Program.

- Firms can only be certified as DBEs if they meet criteria for social and economic disadvantage. In the Federal DBE Program, certain minority groups and women are presumed to be socially and economically disadvantaged. Certification criteria for economic disadvantage include business revenue and personal net worth of the business owner. White male-owned firms can be certified as DBEs if they meet certain criteria.
- Agencies develop overall goals for utilization of DBEs in their USDOT-funded contracts. An agency expresses its overall DBE goal as a percentage of contract dollars that might be expected to go to DBEs absent the effects of discrimination. GDOT's current three-year goal (FY2010 FY2012) is for 12 percent of its FHWA-funded contract dollars to go to DBEs.
- Under certain circumstances, the Federal DBE Program allows state and local agencies to apply DBE contract goals to individual USDOT-funded contracts. When awarding certain FHWA-funded contracts, GDOT often sets a DBE contract goal and then considers whether or not a bidder meets the goal (by including DBEs as subcontractors in the project) or shows good faith efforts to do so.
- The Federal DBE Program identifies specific the minority groups (as well as women) presumed to be socially and economically disadvantaged and eligible to participate in measures such as DBE contract goals if their firms are certified as DBEs. However, in compliance with federal regulations, some state and local agencies limit participation in race- and gender-conscious elements of the Program to certain racial, ethnic or gender groups (some states refer to these groups as Underutilized DBEs). To do so requires a waiver from USDOT. Currently, all DBEs are eligible to participate in race- and gender-conscious measures that GDOT implements.
- GDOT also has programs to encourage utilization of small businesses in its contracting (an example of "neutral" measures that are part of GDOT's implementation of the Federal DBE Program).

¹ http://www.dotcr.ost.dot.gov/asp/dbe.asp.

Cities, counties and local transportation agencies receiving USDOT funds through GDOT must also implement the Federal DBE Program.

The Federal DBE Program only applies to contracts that are USDOT-funded. Some other states and some local governments in and outside Georgia operate similar programs for their non-federally-funded contracts. Although GDOT had such a program in the 1990s, it has not applied any race-conscious programs to its non-federally-funded contracts since that time.

2. Why did GDOT undertake the disparity study?

The disparity study provides information to assist GDOT when it:

- Establishes a new three-year goal for DBE participation in its FHWA-funded contracts;
- Estimates the portion of its overall DBE goal to be met through race- and genderneutral means and, if any, the portion to be met through race- and gender-conscious means;
- Chooses the specific measures it will apply when implementing the Program; and
- Considers whether all DBE groups would be eligible to participate in any race- and gender-conscious measures such as DBE contract goals, or whether eligibility would be limited to certain racial/ethnic/gender groups of DBEs (if GDOT determines that it will continue to implement race-conscious measures).

Throughout the country, a number of non-minority contractors and other groups have filed lawsuits challenging the constitutionality of the Federal DBE Program, or the constitutionality of a state or local government's implementation of the Program. Information provided in the disparity study will help GDOT in its implementation of the Federal DBE Program and in following guidance from USDOT and the courts, including U.S. Supreme Court decisions. Legal issues are explained in Chapter 2 and Appendix A of this report.

3. What does a disparity study include?

Disparity studies typically include analyses of whether there is a disparity between the *utilization* and *availability* of minority- and women-owned firms (MBEs and WBEs).

- "Utilization" refers to the percentage of an agency's contract dollars that went to MBEs and WBEs during a certain period of time.
- "Availability" refers to the percentage of contract dollars that one might expect to go to MBEs and WBEs given the relative number of MBEs and WBEs available to perform specific types and sizes of prime contracts and subcontracts.

Most minority- and women-owned firms in Georgia are not certified as DBEs. BBC included both certified and non-certified minority- and women-owned firms in both the utilization and availability results so that the disparity analysis would identify any potential barriers related to race, ethnicity or

٠

² City of Richmond v. J.A. Croson, 488 U.S. 469 (1989) and Adarand Constructors, Inc. v. Peña, 515 U.S. 200 (1995).

gender of the business owner. For purposes of this study, "minority" includes groups defined in the Federal DBE Program: African Americans, Asian-Pacific Americans, Subcontinent Asian Americans, Hispanic Americans and Native Americans. To further isolate the possible effects of gender, "WBEs" refers to white women-owned firms in this disparity study.

To perform the utilization analysis, the BBC study team compiled and analyzed data on more than 4,800 FHWA- and state-funded prime contracts and subcontracts totaling about \$2 billion that GDOT awarded from 2009 through June 2011. The study team examined the types of work involved, location, size, timing and funding source for each prime contract and subcontract.

In the availability analysis, the study team analyzed data from telephone interviews completed with firms doing business in relevant subindustries in Georgia. Only firms qualified and interested in transportation contracts for state or local transportation agencies in Georgia were included in the availability analysis. The study team successfully contacted more than 4,500 business establishments in 2011 as part of this research.

BBC compared utilization of MBEs and WBEs on GDOT contracts with the dollars those firms might be expected to receive based on MBE/WBE availability for those types, locations and sizes of prime contracts and subcontracts.

The BBC study team also analyzed GDOT contracting processes, conditions in the Georgia marketplace and potential business assistance programs. As part of those analyses, the study team developed statistical models, compiled and analyzed bids and qualifications statements for GDOT construction and engineering-related contracts, and examined results of disparity studies recently conducted by local governments in Georgia.

4. Who performed the disparity study?

BBC is a Denver-based economic research firm that is one of the leading disparity study consultants in the United States, having conducted disparity studies for more than 70 government agencies since 1989. The disparity study team also included:

- **Keen Independent Research LLC**, a Denver-based economic and market research firm that specializes in disparity studies. Keen Independent Research co-directed the GDOT study.
- Holland & Knight LLP (H&K), a national law firm with offices throughout the country, including Atlanta. H&K provides a legal analysis for this study.
- Red Bridge Consulting, Inc., an information technology and business process analysis firm. Red Bridge supported BBC in the collection of electronic and hard copy contract and proposal data as well as the review of GDOT's contracting procedures. Red Bridge is certified as a DBE with GDOT.
- TCG Consulting, a marketing communications and market research firm specializing in market research studies, community outreach, customer communications and public education campaigns. TCG compiled and analyzed past complaints filed with GDOT concerning DBE issues and chaired public forums to obtain community feedback about the draft report, which it then reviewed. TCG is a veteran-, minority- and womanowned business and is certified with GDOT as a DBE.

■ Customer Research International (CRI), a national telephone survey firm based in San Marcos, Texas. CRI performed telephone interviews with owners and managers of Georgia businesses as part of the availability analysis. CRI performed similar services on other BBC disparity studies. CRI is a minority-owned firm.

Team members have extensive experience with state departments of transportation and other agencies implementing the Federal DBE Program.

5. What proportion of firms available for GDOT contracts are MBEs and WBEs?

The BBC study team conducted telephone interviews to collect information on the qualifications and interest of firms in local transportation agency work as well as the types and sizes of contracts and subcontracts they perform. The study team successfully contacted 4,571 business establishments concerning their availability for state and local transportation contracts. About 2,500 establishments that were successfully contacted indicated they were not interested in participating in a discussion about their availability for GDOT work. After reviewing responses about firm characteristics, their interest and qualifications for GDOT work and other topics, BBC developed a database of 929 firms to be included in the availability analysis.

Of the firms included in the availability analysis:

- Minorities owned 19 percent of the firms;
- White women owned 11 percent of the businesses; and
- Combined, minority- and women-owned businesses accounted for 30 percent of the firms included in BBC's availability database.

Most MBE/WBEs in the availability database were not certified as DBEs.

The availability data allow BBC to develop a representative depiction of firms qualified and interested in state and local transportation agency work, but it should not be considered an exhaustive list of every minority-, woman- and majority-owned firm that could participate in a GDOT contract. Reasons for this are discussed in Chapter 5 and Appendix C.

6. What share of GDOT contract dollars might be expected to go to MBEs and WBEs?

BBC developed overall estimates of the GDOT contract dollars that might be expected to go to minority- and women-owned firms based on analysis of the specific type, location, size and timing of each GDOT prime contract and subcontract and the relative number of minority- and women-owned firms available for that work. BBC performed an availability analysis for each of the more than 4,800 GDOT prime contracts and subcontracts from 2009 through July 2011. To determine an overall availability figure, BBC then weighted availability results for each contract element based on the size of the prime contract or subcontract.

Using the data and methodology described above, one might expect 22 percent of GDOT contract dollars examined in the disparity study to go to minority- and women-owned firms. African American-owned firms accounted for 14 percentage points and white women-owned firms (WBEs) were 5 percentage points of the overall availability. Figure ES-1 shows overall availability results by group. These values serve as benchmarks to evaluate the actual percentage of GDOT contract dollars going to minority- and women-owned firms from 2009 through June 2011.

The dollar-weighted availability figures are lower than what is indicated from a simple "headcount" of minority-, women- and majority-owned firms (which would be 30%) primarily because relatively few of the firms available for GDOT's largest prime contracts are MBEs or WBEs.

Figure ES-1.
Dollar-weighted availability of firms for GDOT contracts, 2009–June 2011, by race, ethnicity and gender

Source: BBC Research & Consulting from Availability Database.

Race, ethnicity and gender	Utilization benchmark (availability %)
African American-owned	14.1 %
Asian-Pacific American-owned	1.5
Subcontinent Asian American-owned	0.6
Hispanic American-owned	0.5
Native American-owned	<u>0.1</u>
Total MBE	16.8 %
WBE (white women-owned)	<u>5.2</u>
Total MBE/WBE	22.0 %

BBC conducted a disparity analysis for all GDOT contracts, and also performed analyses for subsets of contracts (e.g., separating FHWA- and state-funded contracts, construction contracts and engineering-related contracts, prime contracts and subcontracts, and contracts by region of the state). BBC determined availability benchmarks for each set of GDOT contracts and subcontracts examined in the disparity analysis. Overall MBE/WBE availability varied from 20 percent to 31 percent depending upon the set of contracts examined.

Chapter 5 provides more information about the availability analysis. Appendix B discusses study team collection of GDOT contract data and Appendix C provides more information about how BBC compiled information about businesses availability. Tables in Appendix K present MBE/WBE utilization, availability and disparity results for each subset of GDOT contracts and subcontracts.

7. What share of GDOT contract dollars did go to MBEs and WBEs (and DBEs)?

GDOT contracts. Of the \$2 billion in combined GDOT FHWA- and state-funded contract dollars examined for 2009–June 2011, minority- and women-owned firms received \$246 million, or 12.4 percent. DBEs accounted for 9.7 percentage points (\$192 million) of the overall MBE/WBE participation.

Figure ES-2.
MBE/WBE and DBE share of prime contract/subcontract dollars for GDOT construction and engineering contracts, 2009—June 2011, FHWA vs. state funding

Note

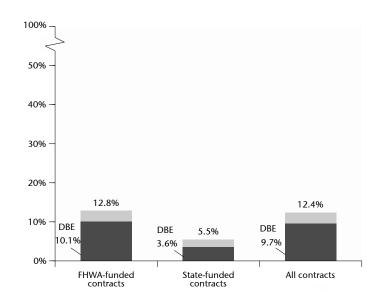
Certified DBE utilization.

Number of contracts/subcontracts analyzed is 4,390 for FHWA-funded contracts, 448 for state-funded contracts and 4,838 for all contracts.

For more detail and results by group, see Figures K-3, K-4 and K-2 in Appendix K.

Source:

BBC Research & Consulting from data on GDOT contracts.



WBEs received 8.4 percent of total contract dollars compared with 2.4 percent for African Americanowned firms and 1.1 percent for Hispanic American-owned firms. Other minority-owned firms combined received about 0.5 percent of contract dollars.

Local agency contracts administered by GDOT. BBC was also able to collect and analyze MBE/WBE utilization information for 14 of the 22 largest local agency contracts during the study period that used funds administered by GDOT. All of the contracts were for construction and most were FHWA-funded.

MBE/WBE utilization on local agency contracts was 7.6 percent.

8. Was there a disparity between utilization and availability of MBEs and WBEs on GDOT contracts?

BBC compared GDOT's actual utilization of minority- and women-owned firms with the share of contract dollars that those firms might be expected to receive based on their availability for specific GDOT prime contracts and subcontracts.

Overall MBE/WBE utilization of 12.4 percent for GDOT contracts was substantially less than what might be expected from the availability analysis (22%). There was about 56 cents of actual participation for every dollar that might be expected to go to minority- and women-owned firms based on the availability analysis for these contracts.

- When examining GDOT state-funded contracts (no DBE contract goals applied), MBE/WBE utilization was 5.5 percent of contract dollars. There was about 22 cents of actual participation for every dollar that might be expected to go to minority- and women-owned firms from the availability analysis. There were substantial disparities in the utilization of each racial/ethnic/gender group included in the Federal DBE Program (firms owned by African Americans, Asian-Pacific Americans, Subcontinent Asian Americans, Hispanic Americans, Native Americans and white women).
- On FHWA-funded contracts (DBE contract goals applied), there were substantial disparities in the utilization of African American-, Asian-Pacific American- and Subcontinent Asian American-owned firms.
 - Utilization of white women-owned firms (8.7%) exceeded availability when DBE contract goals applied.
- Random chance in the awarding of prime contracts and subcontracts can be rejected as
 a cause of the disparities for minority- and women-owned firms (disparities for MBEs
 and WBEs are "statistically significant").

Turning to local agency contracts using funds administered by GDOT, MBE/WBE utilization (7.6%) was substantially below what might be expected from the availability analysis (20.5%).

Chapter 7 of the report presents detailed results from the disparity analysis.

9. Is there any indication of "overconcentration" of DBEs in certain types of work?

If an agency implementing the Federal DBE Program finds that DBEs are so overconcentrated in certain types of work as to unduly burden non-DBEs in that type of work, it is required to devise appropriate measures to address that overconcentration.

- When considering DBE participation by type of work, BBC identified that DBE trucking firms accounted for about one-quarter of DBE participation in GDOT and local agency contracts.
- About 72 percent of the trucking work identified in GDOT and local agency contract data went to DBEs (about one-half to white women-owned DBEs and one-half to minority-owned DBEs).
- The 2005 GDOT disparity study also identified DBE participation in trucking and hauling as a potential issue.

In accordance with 49 CFR Section 26.33, GDOT may need to consider steps to ensure that future DBE participation is not overconcentrated in trucking. GDOT would need to obtain the approval of FHWA for any determination of overconcentration and the measures it would employ to address it. Chapters 8 and 12 further discuss this issue.

10. What are conditions for minorities and women within the Georgia transportation contracting marketplace?

Aspects of the local marketplace that an agency implementing the Federal DBE Program might consider when implementing the Federal DBE Program are discussed in 49 CFR Section 26.45(d). BBC's analysis of these factors in Georgia identified evidence of disparities for minorities and women pertaining to:

- Entry and advancement;
- Business ownership;
- Access to business capital, bonding and insurance; and
- Success of businesses.

The evidence of barriers to doing business in the transportation contracting marketplace includes information collected in telephone interviews with Georgia minority-, women- and majority-owned businesses, as well as public comments collected as part of the disparity study process. There was also qualitative evidence of discrimination against minority- and women-owned businesses in the Georgia marketplace collected in disparity studies that local agencies in Georgia completed in the past three years. Chapter 4 and Appendices D, E, F, G and J present results of BBC's marketplace analyses.

11. How can GDOT use study information when setting an overall goal for DBE participation?

The Federal DBE Program outlines how agencies are to set overall goals for DBE participation in their USDOT-funded contracts (49 CFR Section 26.45). Steps include establishing a "base figure" after considering firms available for an agency's USDOT-funded work, and then considering a "step 2 adjustment." The BBC disparity study considered both the base figure and possible step 2 adjustment for a future GDOT overall goal.

Base figure. BBC's availability analysis indicates that minority- and women-owned firms currently or potentially certified as DBEs might be expected to receive 19.8 percent of GDOT FHWA-funded transportation contracts (see discussion of base figure in Chapter 5).

These results are based on analysis of GDOT FHWA-funded prime contracts and subcontracts contracts from 2009 through June 2011, which include a number of projects funded through the American Recovery and Reinvestment Act. When considering an overall DBE goal for the next three fiscal years, GDOT should consider how its future mix of FHWA-funded projects may differ from the 2009 through June 2011 time period.

Step 2 adjustment. Once an agency selects a base figure for its overall DBE goal, the Federal DBE Program requires agencies to consider other factors before setting an overall DBE goal. These factors include level of past DBE participation in agency contracts and information concerning the opportunities for DBEs to form, grow and compete.

BBC's analysis of these factors indicates that GDOT might consider an overall DBE goal of at least 15 percent, as discussed in Chapter 10. Part of the reason to consider a higher DBE goal than the current 12 percent DBE goal is to follow USDOT guidance to include information on non-certified minority- and women-owned firms in the availability analysis.

12. How can GDOT use study information when projecting the portion of its overall DBE goal to be met through neutral means?

The Federal DBE Program requires agencies to meet the maximum feasible portion of the overall DBE goal through race- and gender-neutral means. This requirement has been a long-standing component of the Program, but 2011 additions to the Federal DBE Program include more specific requirements for agencies to develop and implement plans to facilitate competition by small businesses. (GDOT recently submitted its program for small businesses to FHWA.)

Chapter 11 of the report reviews a number of small business program examples for GDOT consideration. These potential measures include changes to GDOT's prequalification, registration and consultant evaluation processes to open more opportunities to smaller, younger businesses. BBC identified evidence of disadvantages for small firms seeking GDOT prime contracts. There appeared to be additional disadvantages for minority-owned firms.

Agencies implementing the Federal DBE Program are required to seriously consider workable neutral remedies that can facilitate DBE participation in their contracts. GDOT is not required to implement every conceivable race-neutral alternative, but must exhibit serious, good-faith consideration of workable race-neutral alternatives. Its consideration of those remedies should be reflected when projecting the portion of its overall DBE goal to be achieved through neutral means.

If an agency projects that it cannot meet its overall DBE goal solely through neutral means, the Federal DBE Program requires that the agency consider use of DBE contract goals to help meet its overall DBE goal. Each agency must project the portion of the goal to be met through neutral means and any portion to be met through race-conscious programs.

As GDOT makes this determination, considerations include the following.

- From 2009 through June 2011, DBEs obtained 3.6 percent of GDOT state-funded contract dollars. No DBE contract goals applied to these contracts.
- Including non-certified firms, minority- and women-owned firms received 5.5 percent of GDOT state-funded contract dollars.³
- BBC identified substantial disparities between the utilization of minority- and womenowned firms in GDOT's state-funded contracts and what might be expected based upon the availability analysis (substantial disparities for each racial and ethnic group in the Federal DBE Program).

_

³ It is important to note that GDOT would need to encourage non-certified minority- and women-owned firms to become certified as DBEs to be able to count them toward DBE participation in the future. Some of the MBE/WBEs utilized by GDOT might not meet the criteria for DBE certification. In accordance with federal guidance, GDOT should consider the results for past MBE/WBE participation when projecting the portion of its overall DBE goal to be met through neutral measures.

- With DBE contract goals and current neutral measures, DBE utilization on FHWA-funded contracts from 2009 through June 2011 (10.4%) was below GDOT's overall DBE goal (12%).
- GDOT's specific neutral projection will depend on the level of the overall DBE goal it adopts.

13. Can GDOT consider use of race- and gender-conscious measures such as DBE contract goals, in accordance with federal regulations?

As discussed above, the information contained in the disparity study indicates that, without DBE contract goals, utilization of minority- and women-owned firms in GDOT contracts is substantially below what might be expected based on the availability analysis.

GDOT should review all of the analyses in the disparity study, and any additional information it has available, when determining whether it will meet its overall DBE goal solely through neutral measures, or when projecting the portion of the overall DBE goal to be achieved through neutral efforts.

14. If GDOT determines that it will use DBE contract goals, which racial, ethnic or gender groups of DBEs might be considered eligible for that program, in accordance with federal regulations?

GDOT must make a determination whether it will use DBE contract goals as part of its implementation of the Federal DBE Program. If it uses DBE contract goals, it must also determine which racial/ethnic/gender groups will be eligible for the program.

The following information may be useful in that event:

- BBC identified substantial disparities between the utilization of minority- and womenowned firms in GDOT's state-funded contracts and what might be expected based upon the availability analysis. There were substantial disparities for each racial and ethnic group.
- There is evidence of disparities in the Georgia marketplace for certain MBE/WBE groups, as discussed in Chapter 4.
- There is also qualitative evidence of discrimination against minority- and women-owned businesses from disparity studies conducted by local governments in Georgia (see Chapter 4).

Based on the data presented in Chapter 6 concerning the utilization of DBEs on GDOT FHWA-funded contracts, white women-owned DBEs accounted for more than 60 percent of the total DBE participation and minority-owned DBEs were less than 40 percent of DBE participation. One state, the Illinois Department of Transportation, has requested a waiver to implement separate contract goals for women-owned DBEs and minority-owned DBEs. Given the utilization results for white women-owned DBEs and minority-owned DBEs, GDOT might further explore with FHWA what actions might be appropriate and whether any waiver request is warranted.

15. What are GDOT's next steps?

The disparity study report presents an independent analysis of information related to GDOT's implementation of the Federal DBE Program. BBC worked with GDOT to design and implement a process to release a draft of the report and receive public input on the information in the draft prior to completing the disparity study. This process was completed in June 2012. The final report incorporates study team review of public input.

GDOT should review report results and other relevant information when making decisions concerning its implementation of the Federal DBE Program. GDOT will need to submit a Goal and Methodology for a three-year period beginning Federal Fiscal Year 2013. Chapter 12 of the report provides additional information concerning Program components for GDOT consideration.

Going forward, GDOT will need to closely monitor whether it is successful in removing barriers to MBE/WBE and DBE participation in its contracts. It should expand its utilization data collection and reporting to include MBE/WBE and DBE participation for both FHWA- and state-funded contracts, and for local government contracts that use funds administered by GDOT.

USDOT periodically revises components of the Federal DBE Program and issues guidance concerning implementation of the Program. In addition, new court decisions provide insights as to proper implementation of the Federal DBE Program. GDOT should closely follow such developments.

GDOT should further examine staffing, training and information systems necessary to fully implement the Federal DBE Program. Additional resources may be needed to implement some of the options identified in the study.